FINANCE AND FINANCIERS IN EUROPEAN HISTORY, 1880–1960

edited by
YOUSSEF CASSIS
Department of History and Centre for European Law Studies, University of Geneva

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1 Introduction: the weight of finance in European societies

Y. CASSIS

The object of this book is to attempt an evaluation of the role of finance in European history from the late nineteenth to the mid twentieth century. It is innovative in the field of financial history by adopting simultaneously a global approach and a comparative approach.

By 'global approach' one means that European finance cannot be understood only at the economic level but should also be considered at the social and political levels as well as in the general context of international politics and economics. Thus this book analyses the position of the financial sector in the economies of six European countries by considering various indicators ranging from the share of the sector in the GNP or the workforce to its contribution to economic growth and the effects of state regulation. It then turns to the position of financial elites in society, discussing to what extent financial elites form a distinct business and social elite, an 'aristocratic bourgeoisie', enjoying a special social status. The weight of financial interests in the shaping of government policies, in particular economic policies, is also examined, which in turn requires paying attention to such themes as financial lobbying, the possible conflicts of interests between banking and industry, or the role of the central bank. But European finance cannot be considered independently from the rest of the world. Although the well-worked theme of finance and imperialism[1] is not directly addressed in this book the impact of the rise of extra-European financial centres is discussed, in the first place New York, but also the background to the rise of Tokyo and more recently such centres as Hongkong, Singapore, Bahrein or Sydney. The advantages of such a global, multiple approach are widely acknowledged. However, although it has been practised by individual scholars, it still remains rarely attempted, especially when more than one or two countries are involved.

As for the 'comparative' perspective it has produced important contributions which had added a great deal to our knowledge of the subject. One thinks in particular of the work of Rondo Cameron and his collaborators, published some twenty years ago,[2] to which Sidney Pollard and Dieter Ziegler come back in more detail in the following chapter.

Combining the global and the comparative perspectives is no easy task if one wants to avoid the trap of either treating each country globally but separately or limiting the comparison to a single level of analysis. It is not only a question of detecting the interactions and *correspondences* between the economic, social and political levels, but also the discrepancies, the differing rhythms of evolution for each level and for each country. The way suggested here in order to integrate the economic, social and political levels in a comparative perspective is through a broad measure of the weight of finance in the economies and societies concerned – a measure which can be taken at any of these levels. In one country, finance can weigh very heavily at the economic level but comparatively lightly at the social one. Different combinations could be found for other countries or change over time. An example of such a difference of appreciation is given in chapter 19 by Kathleen Burk about the concept of 'financial power': does it mean, in a strictly economic sense, abundance of private money, or should this concept be used only if these funds can be directed according to government policy?

An estimate of the weight of finance poses a series of problems. The objective is obviously not to quantify all the variables in order to obtain a statistical presentation of the weight of finance in each country. There has been some important quantitative comparative analysis of the development of banking and finance, in particular the work of Raymond Goldsmith on the relationship between the growth of financial intermediation and the modernization of the economy.[3] Some of the data considered here are quantitative, but some others are highly qualitative and lend themselves with difficulty to any positive evaluation. The more so as some of these qualitative data are often part of controversial historical debates: for example the City and the performance of the British economy,[4] the role of the banks in German industrialization,[5] the feudalization of the German bourgeoisie[6] or France's economic backwardness.[7] Any global evaluation and comparison will therefore have to remain tentative and provisional. A qualitative approach, despite its limitations, appears especially desirable when comparing countries of broadly similar social structure and degree of development.

A certain number of criteria can nevertheless be defined in order to estimate the weight of finance. Nine criteria have been retained here: four at the economic level, two at the social level and three at the political level.

Financial institutions

A first possible measure of the weight of finance is given by the size of the largest financial institutions, in comparison, for example, with the size of the largest industrial concerns. In chapter 5, Richard Tilly points out that the three largest German companies in 1913, by capital, were banks, and banks made up seventeen of the top twenty-five. This phenomenon can be observed in most European countries. In France, the three largest companies in 1913 were also banks, and the gap separating them from the largest industrial companies was wider than in Germany.[8] The largest companies were also banks in Belgium and Switzerland. The reverse was true for Britain, and this could seem surprising in view of the predominant position of British finance in the world economy. But the British banks worked with a much smaller capital than their continental counterparts; if measured by total assets, the English, French and German largest banks were roughly of the same size at the eve of the First World War. In addition, it would be misleading to compare only banks, as Britain had a much more developed capital market than France and Germany. The situation changed in the interwar period. Banks were outdistanced by industrial companies in Germany whereas the gap narrowed in both France and Britain, meaning as far as the banks' position was concerned a relative weakening in France and a relative strengthening in Britain. Despite these differences, Harold James interestingly points out in his comments on part I that in all European countries the long-term development of the great banks was interrupted in the 1930s.

Economic share

Another quantitative estimate of the economic weight of finance can be attempted through its share of the working population and of the national income. Data are not readily available on these items, particularly for the earlier periods. On the basis of the chapters by Cottrell, Gueslin and Cassis and Tanner, some indicative comparisons can be made between Britain, France and Switzerland in the interwar years. In 1931, 2.2 per cent of the working population in Britain was employed in the financial sector, as against 1.5 in Switzerland and 0.8 in France. It should be pointed out that in both Britain and Switzerland the figures include insurance and other financial services. In Switzerland, this percentage was roughly equal to that of the workforce employed in the chemical industry, whereas in Britain it was larger than a number of industrial branches, including textiles, iron and steel and chemicals. Finance also contributed more to the GDP in Britain than in a country which must have topped the

European league, Switzerland; it was 5.6 per cent for Britain in 1931 as against 3.3 per cent for Switzerland in 1929, and again 5.6 per cent for Britain in 1938 as against 2.3 per cent for Switzerland in 1939. The two indicators, size of the financial institutions and share of workforce and national income, therefore do not necessarily move in the same direction. In some countries, banks as companies could be of paramount importance, for example Germany before 1914, whereas in other countries, such as Britain, the size of the sector as a whole is a more determinant factor. The answer to the question as to which of the two indicators has more weight must be found in the role played by the financial sector in economic development.

Economic influence

An estimate of the weight of finance in terms of economic influence can only be made in a qualitative way. Economic influence refers here to the role played by finance at the micro- and macro-economic levels. At the micro-economic level, it is the extent to which financial institutions can exert a control over other companies or influence their policy, either through an interest held in these companies or through other forms of representation. At the macro-economic level, it is the question of the contribution of banks to economic development.

The general trend which emerges in the cases of larger European countries is an emphasis on the limits of banking influence. Distinctions should of course be made between the pre-war and post-war periods, which has already been underlined in connection with the growth of the financial institutions. French, and especially German banks, lost ground after the First World War as shown by André Gueslin and Gerald Feldman respectively in chapters 4 and 13. However, even for Imperial Germany, Richard Tilly stresses the persistence of the role of the private banks and of the publicly owned banks, such as the savings banks, as well as the crucial role played by self-financing in the supply of funds to German industry. Philip Cottrell points out the separation between domestic banking and the City of London until the 1920s. André Gueslin underlines the slow growth of banking deposits in France even before 1913, and the fact that the flow of savings went mostly outside banking. In the smaller countries, by contrast, there appears to be a greater degree of banking intervention from the 1880s on. For Switzerland, Cassis and Tanner suggest that the real level of banking concentration in the 1930s and 1940s might be underestimated in the official figures and notice the wide network of influence exercised by the big banks during that period. Ginette Kurgan points out the increased number of universal banks and finance companies in Belgium, which reveals closer links between banks and industry, as well as the dominance of the banking sector by the Société Générale. Larsson and Lindgren reveal the devices used by the Swedish commercial banks to circumvent the law forbidding them to own shares of industrial companies. This general trend appears to be dominant despite the set-back of the 1930s.

It remains difficult to ascertain whether these diverging trends are the result of the emphasis put by the authors or whether they reflect a significant difference in the degree of economic influence. It is not inconceivable that banks had a greater influence in the economies of the smaller European countries, if only because of their relative size. The most striking case is that of the Société Générale de Belgique, which became in 1930 the largest bank in Europe, including the British banks. The recent literature on the relationships between banks and industry in Germany tends to underline the independence of the large industrial concerns, not only as a result of the war and inflation, but in fact since the beginning of the twentieth century.[9] Were these industrial firms more independent of the banks than their Belgian, Swiss or Swedish counterparts? Or have the debates and resulting investigations gone further in Germany and therefore produced more balanced views? The answer depends on further research being undertaken about the poor relatives of comparative analysis: the smaller European countries.

As to the role of banking in economic development, the generally accepted view is that banks played a more positive role in Germany than in Britain and France from the 1880s on, that is with the emergence of the 'new' industries of the second industrial revolution. This view is in all probability correct, and in his comparative remarks on Britain and Germany, Richard Tilly attributes the greater flexibility shown by the German capital market concerning the issue of equity capital as well as the greater efficiency of the German portfolio investment to the differences in the relationships between banks and industry, in particular the better access to information by banks and shareholders.[10] However, although the amalgamation movement which gathered pace in England in the late nineteenth century resulted in a limitation of the banks' commitment to industry, one should not forget the change which occurred in the 1920s; the British banks became more involved in industrial finance[11] at a time when many German industrial companies were able to emancipate themselves from the banks.[12] In France, the disengagement of the big banks from industrial finance from the 1880s was compensated by the activities of the larger regional banks which were particularly close to their industrial customers in the economically most dynamic regions: the north and the east.[13]

This raises the question of the adaptability of a banking system to a particular stage of economic development. Was the English banking system well suited for the financial needs of the first industrial revolution but much less so for the greater requirements of the second one, to which the German banking system responded more adequately? Looking back at the role of the banks in earlier stages of industrialization, Pollard and Ziegler make an important methodological as well as theoretical point regarding comparative analysis. Rather than comparing the banking systems of a number of countries, each at their own stage of industrialization, account should be taken of the stage of the world economy in which each take-off took place, which required that the industrializing country set up a banking system different from that of its predecessor, and in turn that the predecessor adapted its system to new demands. Another important factor in the role of banking in industrial development is the stability of the banking system, and this forms another part of the weight of finance. The English banking system is usually considered as superior to the German one in that respect, although some authors would argue that the German system was in no way unstable before 1914.[14] However, the banking crisis of 1931 provoked a change in opinion concerning the respective merits of the British and German systems.

International finance

Part of the weight of the financial sector in the economy is also made up of international financial activities. A first measure of this weight can be taken through the position of a country in world finance. One indicator of this position is the export of capital. As is well known, and despite some controversies surrounding the estimate of capital exported,[15] Britain was by far the largest exporter of capital before 1914, followed by France, Germany and the United States.[16] On a per capita basis, however, some authors have argued that Switzerland was ahead of Britain in 1913, with smaller European countries such as Belgium and Holland not very far behind.[17] The situation again changed in the interwar period, with the United States challenging Britain, France falling far behind the two Anglo-Saxon countries and Germany becoming a debtor nation. The smaller European countries, however, maintained their position at the top of the league.[18] Another indicator is the presence in the country of a major financial centre. This approach in terms of a hierarchy of financial centres is very finely used by Geoffrey Jones to analyse the rise of such centres in Asia, the Middle East and Australia, although it is not done systematically in the papers covering the European countries. Here again, London has maintained an almost uninterrupted supremacy for over a century, while Paris and Berlin remained major centres, Berlin being however replaced by Frankfurt after the Second World War.[19] Despite its role in international finance, Switzerland did not produce a centre of major international significance before the 1960s, contrary to Belgium and Holland. Another point to be noticed is that, apart from New York, whose rise and growing competition with London is analysed in chapter 19 by Kathleen Burk, and the very recent rise of Tokyo, the emergence of extra-European financial centres hardly affected the position of the leading European centres. However, as Mira Wilkins makes clear in her comments on part V, whatever the role of European financial centres, Britain's – and more particularly London's – pre-eminence appears overwhelming.

From our perspective on the weight of finance, the position in world finance must be considered in terms of its effects, positive or negative, on the domestic economy. A strong international position can add to the weight of finance by its contribution to the balance of payments or by leading to the growth of the financial institutions. But capital exports have also been considered to be harmful to the domestic economy, while the requirements of a leading position to international finance might run contrary to those of domestic trade and industry. These contradictions were most acute in Britain, and to a certain extent also in Switzerland, after the First World War. In France, on the contrary, despite the occasional politically driven attempts to see Paris supplant London as the leading European financial centre, these contradictions did not exist, probably because France was not prepared, or was not in a position, to support all the effects of holding such a position.[20]

Is there any correspondence between economic power and social status? Before considering this question, it is necessary to start with a definition of the financial elite. Where should the line be drawn between elite and non-elite? If only the directors and senior managers of the major joint-stock banks and the partners of the most influential private banks are to be considered, then we are dealing with a very limited number of people, in particular in the smaller European countries: in Switzerland, three or four joint-stock banks and half-a-dozen private banks; in Belgium, it seems that the financial elite consisted, besides a few private bankers, of the directors of the Société Générale. Even in the larger countries, the financial elite is much less numerous than the industrial one. The financial elite could also be described as a wealth elite, see Dolores Augustine on Germany in chapter 9; this criterion also results in having a narrowly defined elite, with a strong representation of private bankers. Martin Daunton proposes in chapter 7 a wider definition of the British financial elite, including segments of the City of London which have hardly been investigated so far, such as members of the London Stock Exchange and of Lloyd's of London as well as commodity brokers and other types of brokers and merchants. Considering that many of these activities were much less developed in other financial centres, this would mean that the financial elite was significantly more numerous in England than in the other European countries. Although this could seem normal given the position of London as the financial centre of the world for much of the period under review, one should not neglect the fact that many of these activities were performed by salaried executives in continental Europe. It appears therefore necessary to establish a hierarchy within this wider financial elite and isolate a financial aristocracy from the rest.

Professional status

A first measure of the weight of finance at the socio-professional level can be taken by considering the professional status of partners in private banks, and of directors and managers of joint-stock banks, which could be compared with the status given to similar positions in other professions. Until 1914, the emergence of giant financial institutions did not fundamentally alter the internal hierarchy of the banking world. In all the countries considered, the financial elite remained dominated by the private bankers, although to varying degrees. Political and social *notables* formed a significant proportion of the financial elite in the continental countries; in Germany, executives of the joint-stock banks were more prominent than in the other countries, especially Britain.[21] The notion of a distinctive financial elite becomes more problematic with the decline of the private banks. Could the characteristics of the private bankers, as described for example by Walter Bagehot in the case of the London private bankers,[22] still be found in the senior executives of the joint-stock banks and therefore justify setting them apart from the rest of the business community? With the exception of England, where the City has retained up to this day a higher social status than industry, this does not seem to be the case.

Social status

The strong influence of the banks in the German economy does not seem to be reflected in the position of bankers in German society. Conversely in Britain, where banks were less involved in the domestic economy, bankers enjoyed a higher social status and were more fully integrated into the upper classes. Dolores Augustine states that 'the image of bankers as the highest-status group within the business class is an optical illusion' and Harold James, while conceding in chapter 14 that the Berlin bankers formed a *Geldaristokratie*, also quotes a British commentator noticing that 'in the generation immediately preceding the war... leaders of outstanding ability were more often found in the ranks of industrialists than in those of bankers'. For the pre-1914 period, it is difficult to evaluate whether bankers enjoyed a lower social status than industrialists in Germany or whether the business elite as a whole, while being internally tightly knit, was less integrated into the upper classes than in Britain. The social status of the business elite improved in post-war Germany, but as Gerald Feldman clearly shows in chapter 13, bankers were distinctly dominated by industrialists. For the smaller countries, Switzerland, Belgium and Sweden, it is difficult at this stage to compare the social status of bankers with that of other socio-professional groups. Bankers appear to have belonged to the upper echelons of the social hierarchy together with other members of the business elite, but not to have weighed more heavily than in other groups. France was somewhat closer to Britain. The notion of 'Haute banque' and of 'aristocratie bourgeoise' after all originated in France where, as Alain Plessis shows in chapter 8, the financial elite retained a special and distinguished status. But Alain Plessis also shows that part of the French society felt for a long time a hostility to bankers, which was however more widespread among the lower-middle and rural classes than among the upper classes where bankers were fully integrated. Among the reasons for the similarities between Britain and France is the fact that London and Paris were older financial centres than Berlin, and this favoured the formation of dynasties of national, indeed international stature.

Political connections

Personal connections form an integral part of the political weight of finance. Individual bankers, or at least the most prominent of them, have always enjoyed a close relationship with political power, most often as advisers to politicians. This feature is common to all the countries considered and derives from the bankers' familiarity with technical financial matters. This 'knowledge' factor has been noticed by both Ewen Green in chapter 11 and Hubert Bonin in chapter 12, while Harold James in chapter 14 notes that bankers have a more global view of economic matters than industrialists. At this individual level, therefore, bankers enjoyed a closer relationship with political power than industrialists, although it was by no means exclusive. Although private bankers were able to retain a high degree of political influence, incommensurate with the size of their firms, senior officials of the joint-stock banks were increasingly consulted by governmental circles, even before 1914. This influence of the joint-stock banks was reinforced by the frequent tendency to invite senior civil servants and politicians to fill senior management positions, especially in France, but also in Germany and Belgium; less so in Britain and Switzerland.

Political pressure

Another common feature to all the countries considered is the lack of development of banking pressure groups compared with industrial ones. The case is made particularly clearly by Hubert Bonin about France and there are indications that the situation was similar elsewhere. Britain here appears to have been the exception. Its banking associations were founded earlier than, for example, those of Germany where the level of professional organization has always been very high. The Committee of the London Clearing Bankers went back to the early nineteenth century and the wider-reaching Central Association of Bankers was founded in 1895 as against 1901 for the Centralverband des deutschen Bank- und Bankiergewerbes.[23] In a country with relatively weak pressure groups the City of London was, as shown by Ewen Green, the most efficient and homogeneous lobbying group. Next was Switzerland, where the Bankers' Association (established in 1912) and banking interests generally were well organized, but they were apparently more strongly counterbalanced by industrial pressure groups than in Britain. Bankers had, therefore, other means of political intervention. One possible instrument in their hands was the central banks, although to varying degrees. Ewen Green and Hubert Bonin reach different conclusions in the cases of Britain and France. In the former case, the links between the Bank of England and the Treasury appear as a prime factor in the political influence of the City of London, whereas in the latter state power as well as internal cleavages seem to act as a check to the political influence of the Banque de France. In Switzerland the foundation of the National Bank in 1905 and the creation of a national currency undoubtedly suited the interests of the large banks; whereas in Belgium, as Ginette Kurgan interestingly points out, between 1918 and 1933, private bankers had an enormous influence and actually supplanted the National Bank in such issues as the negotiations over German reparations or the stabilization of the franc.

Political influence

Whatever their degree of organization, what kind of political influence were bankers able to exert? This can first be judged by their ability to defend their own interests, and a good comparative example is provided by their capacity to maintain their independence from state interference. British bankers were particularly successful in this respect as, until the nationalization of the Bank of England in 1946, the practice of self-regulation remained unimpaired. And, even after the nationalization of the Bank, the government's authority over the banking sector remained limited.[24] French bankers also enjoyed a similar absence of regulation